

## Message Text

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42

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-03 PRS-01 USIA-12 AGR-20 RSR-01 L-03 TAR-02

/187 W

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R 111725 Z MAY 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1138

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 LONDON 05581

DEPARTMENT PASS TREASURY, COMMERCE, FRB.

E. O. 11652: N/A

TAGS: ECON, U. K.

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 11

BEGIN SUMMARY: GOLD ROSE TO NEW RECORD LEVELS IN THE  
LONDON MARKET ON MAY 10, CLOSING AT \$95.05 AFTER  
TOUCHING \$95.25. STERLING CONTINUED ITS FIRM UPWARD  
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TREND CLOSING ON MAY 10 AT \$2.5060-1/2, AFTER REACHING \$2.5088, ITS HIGHEST LEVEL SINCE THE AFTERMATH OF THE DOLLAR DEVALUATION IN FEBRUARY. RETAIL SALES ARE GROWING AT AN ANNUAL RATE OF AROUND 12 PER CENT. LATEST FINANCIAL TIMES SURVEY OF BUSINESS OPINION INDICATES PRESENT EXPANSIONARY WAVE SURGING FURTHER AHEAD. LENDING BY THE LONDON CLEARING BANKS FELL IN THE FOUR WEEKS TO MID- APRIL FOR THE FIRST TIME SINCE LAST AUGUST. THE BANK OF ENGLAND ANNOUNCED REMOVAL OF SEVERAL RESTRICTIONS ON GOLD DEALINGS IMPOSED IN 1968 FOLLOWING THE ESTABLISHMENT OF THE TWO- TIER GOLD MARKET. THE MINIMUM LENDING RATE WAS REDUCED FROM 8-1/4 PER CENT TO 8 PER CENT. END SUMMARY

1. GOLD, AFTER SHOWING ALMOST NO MOVEMENT IN PRICE LAST WEEK, MOVED UP SHARPLY THIS WEEK, GAINING \$2.05 ON THURSDAY. CONDITIONS WERE VERY ACTIVE IN THE LONDON MARKET ON MAY 10 WITH MUCH SHORT- TERM SPECULATIVE BUYING, AS WELL AS LONG- TERM INVESTMENT BUYING AND INDUSTRIAL PURCHASES. A PRICE OF \$100 AN OUNCE ( THURSDAY' S CLOSE WAS \$95.05), WHICH MANY TRADERS EXPECTED TO SEE IN TWO OR THREE YEARS, COULD NOW BE REACHED WITHIN DAYS. THE SHARP RISE REFLECTS RENEWED SELLING OF THE DOLLAR, AND WITH EXCHANGE CONTROLS SEVERELY RESTRICTING SPECULATIVE PURCHASES OF MANY KEY EUROPEAN CURRENCIES, GOLD AND STERLING ARE PROVING MAJOR ALTERNATIVES TO HOLDING DOLLARS.

2. STERLING HAS MOVED UP STEADILY OVER RECENT WEEKS AND WAS, ON MAY 10, 168 POINTS ABOVE THE CLOSE ON MAY 3. STERLING' S RISE THIS MONTH SEEMS TO BE PARTLY ATTRIBUTABLE TO RECENT LARGE OVERSEAS BORROWINGS BY BRITISH PUBLIC BODIES, AS WELL AS HIGH INTEREST RATES IN THE U. K.

3. THE INDEX OF THE VOLUME OF RETAIL SALES ( S. A.) ROSE FROM 117.1 TO 119.4 IN MARCH, FOLLOWING THE SHARP JUMP FROM 114.2 IN JANUARY (1966 100). DURING THE FIRST QUARTER OF THE YEAR AS A WHOLE, THE VOLUME OF TOTAL SALES WAS 3 PER CENT HIGHER THAN FOURTH QUARTER 1972, INDICATING AN ANNUAL INCREASE  
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OF 12 PER CENT. COMPARED WITH FIRST QUARTER 1972, RETAIL SALES IN FIRST QUARTER 1973 ARE UP 10 PER CENT. THE EXTENT OF THE IMPACT OF PRE- VAT BUYING IS UNCERTAIN, ALTHOUGH IT APPEARS TO HAVE HAD A SUBSTANTIAL EFFECT ON THE FIGURES.

4. WHILE THE LATEST FINANCIAL TIMES MONTHLY SURVEY

OF BUSINESS OPINION SEES PRESENT EXPANSIONARY WAVE  
SURGING AHEAD, FIRMS SEE REDUCTION IN PROFIT  
MARGINS DUE TO RISING COSTS OF MATERIALS AND CONTROLS  
ON PRICE INCREASES. COMPANIES REPORT AN INCREASE IN  
NEW ORDERS AND THE MEDIAN FORECAST FOR PRODUCTION HAS  
RISEN BY OVER 10 PER CENT. MANPOWER REQUIREMENTS  
CONTINUE TO RISE, INDICATING A FURTHER DROP IN  
UNEMPLOYMENT.

5. THE FALL IN LENDING BY THE LONDON CLEARING BANKS  
IN THE FOUR- WEEK PERIOD TO MID- APRIL MUST BE SET  
AGAINST THE VERY LARGE RISES IN JANUARY AND FEBRUARY,  
WHEN BANK ADVANCES WERE AFFECTED BY CUSTOMER  
BORROWINGS THAT WERE RE- LENT ON THE SHORT- TERM MONEY  
MARKETS. ABOLITION IN THE MARCH BUDGET OF THE TAX-

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FREE CONCESSION ON CD'S AND REDUCTIONS IN SHORT- TERM  
MONEY RATES HAVE HELPED TO REMOVE THIS DISTORTION.  
IN LOOKING AT THE FOUR- MONTH PERIOD FROM MID- DECEMBER,  
THERE SEEMS TO HAVE BEEN ONLY A SMALL UNDERLYING  
INCREASE IN INDUSTRIAL BORROWING, MAINLY IN THE  
ENGINEERING AND TEXTILE INDUSTRIES.

6. THE BANK OF ENGLAND ANNOUNCED ON MAY 4 THE REMOVAL  
OF SEVERAL RESTRICTIONS COVERING GOLD DEALINGS WHICH  
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WERE IMPOSED IN 1968. THESE INCLUDE REMOVING  
THE RESTRICTIONS ON: 1) AUTHORIZED DEALERS IN GOLD  
ENTERING INTO FORWARD TRANSACTIONS IN GOLD; 2)  
AUTHORIZED BANKS FINANCING PURCHASES OF GOLD BY NON-  
RESIDENTS BY LENDING FOREIGN CURRENCY; AND, 3)  
AUTHORIZED BANKS ACCEPTING GOLD OR COLLATERAL  
AGAINST ADVANCES OF FOREIGN CURRENCY TO NON- RESIDENT  
CUSTOMERS. IN FACT, THESE ACTIVITIES HAVE BEEN  
PERMITTED BY THE BANK FOR A CONSIDERABLE TIME, AND  
THE FORMAL ANNOUNCEMENT SIMPLY RECOGNIZES THE POSITION  
FORMALLY.

7. THE FORWARD DISCOUNT OF STERLING NARROWED TOWARDS  
THE END OF THE WEEK.

	5/3	5/10	CHANGE
1 MONTH	0.49-1/2	0.45	DOWN 0.04-1/2
3 MONTHS	1.34-1/2	1.22	DOWN 0.12-1/2
6 MONTHS	2.72-1/2	2.62-1/2	DOWN 0.10

( ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY DEPOSIT RATES REMAINED RELATIVELY  
STABLE ALL WEEK.

	5/3	5/10	CHANGE
1 MONTH	9-9/16	9-1/2	DOWN 1/16
3 MONTHS	9-9/16	9-9/16	UNCHANGED
6 MONTHS	9-7/16	9-1/2	UP 1/16

9. EURO- DOLLAR RATES DROPPED AT THE BEGINNING OF  
THE WEEK AT ONE MONTH BUT ROSE AT THREE AND SIX MONTHS.

	5/3	5/10	CHANGE
1 MONTH	8	8-1/16	UP 1/16
3 MONTHS	8-1/4	8-3/8	UP 1/8
6 MONTHS	8-1/2	8-5/8	UP 1/8

10. GOLD CLOSED ON THURSDAY AT \$95.05, UP \$4.60

FROM LAST THURSDAY' S CLOSE.

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* UNCLASSIFIED

## Message Attributes

**Automatic Decaptioning:** X  
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**Previous Channel Indicators:**  
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**Review Authority:** kellerpr  
**Review Comment:** n/a  
**Review Content Flags:**  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03-Aug-2001 by reddocgw>; APPROVED <17-Aug-2001 by kellerpr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> mcm 980202  
**Subject:** ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 11  
**TAGS:** ECON  
**To:** BERN  
BONN  
BRUSSELS  
COPENHAGEN  
DUBLIN  
EC BRUSSELS  
EUR

LUXEMBOURG  
SECSTATE WASHDC

**Type:** TE

**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005